

Message Text

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ACTION STR-04

INFO OCT-01 EUR-12 IO-11 ISO-00 STRE-00 USIE-00 AGR-05

CEA-01 CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02

INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 ITC-01 TRSE-00 PRS-01 SP-02 FEAE-00

OMB-01 SSO-00 NSCE-00 INRE-00 /097 W
----- 018258

O R 151900Z MAR 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC IMMEDIATE 1263

INFO USMISSION EC BRUSSELS

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ACTION STR

H PASS CODEL

E.O. 11652: N/A

TAGS: ETRD MTN

SUBJECT: US/EC BILATERAL CONSULTATIONS ON TARIFF FORMULA

1. EC (LUYTEN, KLARIC AND LIBERTALIS) AND US
(AMB. WALKER, CULBERT, BALE AND MCNAMARA) MTN DELS MET
MORNING OF MARCH 15 AT OUR INVITATION TO CONSULT ON
TARIFF REDUCTION FORMULA AND OTHER ISSUES ON THE AGENDA
FOR TARIFFS GROUP MEETING NEXT WEEK. STRESSING
IMPORTANCE US ATTACHES TO THE TARIFF CUTTING
HYPOTHESIS, AMB. WALKER NOTED THE EXTENSIVE CONSULTATIONS
WITH THE PRIVATE SECTOR AND THE CONGRESS AND CONSIDERABLE
ANALYSIS PRECEEDING US DECISIONS THIS QUESTION.
WALKER SAID THAT US OBJECTIVES FOR TARIFF CUTTING IN
THE MTN WERE SIGNIFICANT OVERALL REDUCTIONS OF TARIFFS
WITH HARMONIZATION THROUGH A HYPOTHESIS WHICH IS MORE
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AMBITIOUS THAN KENNEDY ROUND HYPOTHESIS OF 50 PERCENT,

IS AIMED AT REDUCING DUTIES WITHIN THE TARIFF DISTRIBUTION RANGE IN WHICH A LARGE MAJORITY OF DEVELOPED COUNTRY RATES NOW FALL, INSURES MORE EQUITABLE ACCESS AMONG DEVELOPED COUNTRY MARKETS, AND PROVIDES MORE SECURE AND MORE FAVORABLE ACCESS FOR LDC EXPORTS. AS AGREED IN TPRG MEETING MARCH 13, WALKER STATED THAT IN US VIEW THE BEST HYPOTHESIS TO ACHIEVE THOSE GOALS WOULD BE Y EQUALS 1.5X PLUS 50, UP TO A MAXIMUM 60 PERCENT REDUCTION ON EACH ITEM AND APPLIED TO TARIFFS ON ALL PRODUCTS. IN REVIEWING THESE OBJECTIVES AND ARTICULATING US POSITION, WALKER DREW ON POINTS IN THE APPROVED TPRG POSITION PAPER.

2. IN RESPONSE LUYTEN BEGAN BY NOTING THAT US HAS MET ITS OWN SELF-IMPOSED DEADLINE IN TERMS OF TAKING A POSITION ON TARIFF FORMULA AND THAT HIS COMMENTS WHICH FOLLOWED COULD ONLY BE VIEWED AS INITIAL REACTIONS. HE NOTED THAT US PROPOSAL IS MORE SPECIFIC THAN Y EQUALS X WITH UNSTATED ITERATIONS WHICH EC HAD PUT FORWARD EARLIER. HE EXPRESSED SURPRISE THAT US PROPOSAL SEEMS TO BE TARGETED ON TARIFF DISTRIBUTION RANGE WHERE BULK OF TRADE FLOWS OCCUR BECAUSE FACT THAT MORE TRADE OCCURS AT THAT RANGE SUGGESTS THAT REDUCTION OF DUTIES NOT SO IMPORTANT THERE. WITH REGARD TO US VIEW THAT HYPOTHESIS SHOULD APPLY TO TARIFFS ON ALL PRODUCTS, LUYTEN ASKED IF HE WAS CORRECT IN UNDERSTANDING THAT THIS WAS MEANT TO INCLUDE AGRICULTURE. WALKER ASSURED HIM THAT WAS RIGHT AND HE RESPONDED THAT "US HAVING PLAYED ITS SYMPHONY, EC WOULD NOW PLAY ITS." LUYTEN SAID EC WAS LOOKING AT FORMULA IN "AN ENTIRELY DIFFERENT WAY" AS REGARDS AGRICULTURE. REGARDING EXCEPTION, LUYTEN SAID EXPERIENCE SHOWS THAT FORMULA WILL NOT BE AGREED UPON UNTIL AGREEMENT IS REACHED ON EXCEPTIONS PROCEDURES. NO COUNTRY WILL COMMIT ITSELF IRREVERSABLY TO A TARIFF FORMULA UNTIL IT UNDERSTANDS HOW EXCEPTIONS ARE TO BE TREATED. AT THE SAME TIME, HE ACKNOWLEDGED DESIRABILITY OF AT LEAST GENERAL OR AD REFERENDUM AGREEMENT ON GENERAL TARIFF CUTTING HYPOTHESIS BEFORE REACHING DECISIONS ON EXCEPTIONS, THUS IMPLICITLY ACCEPTING "TWO-STAGE" APPROACH WHICH US ADVANCED.

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3. LUYTEN ASKED DUGIMONT TO GIVE AN INITIAL REACTION ON THE "MATHEMATICAL" IMPLICATIONS HE DREW FROM THE US PROPOSAL. FYI. DURING AMBASSADOR WALKER'S PRESENTATION, SECONDS AFTER WALKER ENUNCIATED THE US FORMULATION, DUGIMONT LEANED OVER TO LUYTEN AND IN A LOUD STAGE WHISPER SAID IT WAS A LINEAR FORMULA. END FYI. DUGIMONT EXPANDED ON THIS REACTION IN A SERIES OF REMARKS DISMISSING

THE HARMONIZATION IN THE US FORMULA AS INSIGNIFICANT AND STRESSING ITS LINEARITY. HE EMPHASIZED THE FACT THAT THE US PROPOSAL WOULD CUT TARIFFS BY BETWEEN 50 AND 60 PERCENT IN THE RANGE BELOW 6.67 PERCENT BUT THAT ALL TARIFFS ABOVE THAT LEVEL WOULD BE REDUCED ON A STRAIGHT LINEAR BASIS.

4. WALKER MADE THREE POINTS BY WAY OF RESPONSE. FIRST, HE POINTED OUT THAT THIS REPRESENTED THE FIRST OCCASION IN WHICH THE US HAD EMBRACED HARMONIZATION AS AN OBJECTIVE WHICH IT SEEKS IN A TARIFF CUTTING EXERCISE AND THAT THE SIGNIFICANCE OF THIS POLICY DECISION SHOULD NOT BE DISMISSED LIGHTLY. SECOND, HE POINTED OUT THAT THE ELEVEN COUNTRY GATT TARIFF STUDY SHOWED THE AVERAGE TARIFF (IMPORT-WEIGHTED AND INCLUDING DUTY FREE ITEMS, 1971 DATA) FOR THE ELEVEN COUNTRIES AT 6.2 PERCENT. THUS THE HARMONIZATION ELEMENT IN THE US PROPOSAL IS ENTIRELY CONSISTENT WITH ARGUMENTS TRADITIONALLY ADVANCED IN SUPPORT OF HARMONIZATION SINCE IT CUTS AVERAGE AND BELOW AVERAGE TARIFFS (I.E. THOSE BELOW 6.67 PERCENT) BY LESS THAN IT CUTS ABOVE AVERAGE TARIFFS (I.E. TARIFFS 6.67 PERCENT AND HIGHER). THIRD, HE POINTED OUT THAT 60 PERCENT LINEAR REDUCTIONS IN HIGH TARIFFS, AS PROPOSED BY THE US HYPOTHESIS, HAVE A HARMONIZATION EFFECT AND ATTACK SUBSTANTIALLY (I.E. BY PROPOSED 60 PERCENT CUTS) THE "TARIFF PEAKS" WHICH THE EC HAD ITSELF SOUGHT TO REDUCE.

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5. CONTINUING THE DIALOGUE DUGIMONT STATED THAT THE SHAPE OF THE HARMONIZATION ELEMENT WAS VERY DIFFERENT FROM THE EC PROPOSAL, NOTING PARTICULARLY THAT IT ATTACKED HIGHER RATES IN A DIFFERENT WAY, AND NOTING ALSO THAT DISPERSION AROUND AVERAGE TARIFFS IS WHAT COUNTS FOR THE EC, NOT THE AVERAGE TARIFF LEVEL FOR THE ELEVEN COUNTRIES AS SET OUT IN THE GATT STUDY. HE CONCLUDED BY NOTING AGAIN HIS CONCLUSION THAT THE US PROPOSAL ONLY MAKES A BOW TO HARMONIZATION ON LOW TARIFFS BUT QUICKLY BECOMES A STRAIGHT LINEAR HYPOTHESIS.

6. LUYTEN RECALLED COMMENTS HE MADE AT THE JAN 22 MEETING IN BRUSSELS, AND HAS MADE SUBSEQUENTLY, THAT IF THE US BROUGHT FORWARD A PROPOSAL THAT WAS FAR AWAY FROM THE EC PROPOSAL, "IT WOULD BE A VERY LONG TIME" BEFORE AGREEMENT COULD BE REACHED. NEITHER HE NOR DUGIMONT MADE ANY STATEMENT WHICH COULD BE CONSTRUED AS WELCOMING OR EMBRACING THE SPECIFIC US PROPOSAL OR AS IMPLYING THAT IT REPRESENTED THE KIND OF BREAKTHROUGH WHICH COULD LEAD TO EARLY AGREEMENT. HOWEVER, THEY PROMISED TO CONVEY LIMITED OFFICIAL USE

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IT PROMPTLY TO BRUSSELS AND STATED THEY WOULD REPORT ON IT PROMPTLY TO MEMBER STATE REPS AS WELL. THEY AGREED TO CONTACT THE US MTN DEL IF THEY HAD REACTIONS TO IT BEFORE THE MEETING BEGINNING ON MARCH 23.

7. RESPONDING TO THE STATEMENT THAT THE US WOULD REVIVE ITS CROSS NOTIFICATION PROCEDURE FOR LDCS, LUYTEN AND DUGIMONT REPEATED THE RESERVATIONS WHICH THEY HAVE PREVIOUSLY EXPRESSED ABOUT THIS PROCEDURE, NOTING SPECIFICALLY THEIR CONCERN THAT IT WOULD BECOME ANOTHER TROPICAL PRODUCTS EXERCISE. LUYTEN ACKNOWLEDGED THAT IT WOULD HAVE THE ADVANTAGE OF CENTERING THE DISCUSSION WITH LDCS ON SPECIFIC ITEMS OF TRADE INTEREST RATHER THAN ON ABSTRACT ISSUES, BUT HE STILL FELT THE DISADVANTAGES WERE MORE SERIOUS AND THAT THE COMMUNITY WOULD NOT AGREE TO IT AT THIS MEETING. DUGIMONT ADDED THAT THE EC HOPED TO FIND SOME "MIDDLE GROUND" BETWEEN THE BRAZILIAN APPROACH (I.E. THAT DCS AGREE TO CERTAIN KINDS OF SPECIAL AND DIFFERENTIAL TREATMENT BEFORE DEALING WITH SPECIFIC ITEMS OF LDC TRADE INTEREST) AND THE US PROPOSAL. WHILE HE WAS NOT CLEAR ON WHAT EC HAD IN MIND, HE REFERRED TO THE

PROPOSALS FOR SECRETARIAT STUDY OF THE VARIOUS TARIFF CUTTING PROPOSALS AND IMPLIED THAT THE EC MIGHT SEEK TO USE THIS VEHICLE AS A WAY DEALING WITH LDC INTERESTS AT THE NEXT MEETING.

8. LUYTEN WAS UNABLE TO STATE WHETHER OR NOT EC WOULD TABLE ANY MORE DEFINITE OR PRECISE PROPOSAL THAN THE ONE ALREADY PROPOSED (I.E. Y EQUALS X WITH UNSTATED NUMBER OF ITERATIONS). HE STATED THE EC WOULD LIKE TO DO SO BUT DID NOT KNOW IF THEY WOULD REACH AGREEMENT ON MORE DEFINITE PROPOSAL. HE ALSO SAID IT WAS HIS IMPRESSION THE MAJOR ATTENTION AT THE UPCOMING MEETING WOULD BE DIRECTED TO THE US PROPOSAL. WALKER

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